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## The Importance of Services for Production Activity in South-West Oltenia Region's Economy

Maria Enescu<sup>a,\*</sup>, Marian Enescu<sup>a</sup>

<sup>a</sup>*Faculty of Economy and Business Administration, University of Craiova, Craiova, Romania*

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### Abstract

The labour productivity, as a concept that expresses the production level per unit of used labour production factor, is adapted to the performance analysis of mass production systems, with standardized and relatively less diversified products; is a concept that fits too little to production of goods and services very diversified and less standardized. The analysis of "real" economic performances and in particular of productivity implies that for many activities in the tertiary sector, a preliminary stage of agreement on the indicators for evaluation. The labour productivity is a leading economic indicator, characteristic for the national economy competitiveness and economic growth. The paper aims to identify the economic activities that have contributed to the economic growth in the South - West Oltenia region.

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### 1. Introduction

The difficulty to identify the productivity in the tertiary sector came from the fact that the non-material services do not have a definition and a measure unit for the product, which might be referring as in the case of goods, to criteria or technical specifications, objective and accurate. So we cannot identify the "unit of product" and therefore no price per unit of product (e.g. for health services, the use of indicator "number of cases / patients treated over a period of time" is not relevant enough because there is no typical cases, each case demanding a different workload).

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\* Corresponding author.

E-mail address: [enescu.maria@yahoo.com](mailto:enescu.maria@yahoo.com) (M. Enescu), [enescu.marian@yahoo.com](mailto:enescu.marian@yahoo.com) (M. Enescu)

On the other hand, the evaluation of production or of added value it raises the question of finding some "deflation" indices that takes into account the fact that the increase of prices may be caused by the increasing of service quality, and not only by an inflationary increase (fictive). Although the qualitative dimension is related to the essence of the service, the quality is not and cannot be considered directly in defining and measuring the production. Therefore, the component "quality" is assigned, but in an arbitrary manner, among the other components, namely the quantity and the price of the product.

The alternative solution, consisting in measuring the product by the labour time is not suitable also, because by assimilating the effort with the effect it is suppressed even the notion of productivity. The same for the non-merchandise services, the added value at constant prices is given by the sum of shares of production factors (consumption of fixed capital, remuneration of employees, taxes) re-evaluated at comparable prices, or by measuring the production through production factors which means by definition, removing the variation in productivity.

In these circumstances, the analysis of "real" economic performances and in particular of productivity implies for many services activities, a preliminary stage of agreement on the indicators for evaluation. "The product" of these services appears as a social "building", bringing together different points of view. From these points of view, different results can be obtained, even disagreements about the evolution of productivity in services activities. A common place in this regard is the thesis about small (slow) increments in services productivity.

The main explanations advanced to address these findings are the shortcomings of the statistical methods to measure the increments in productivity in the service activities. The fact that quality elements related to skills and higher wages are incorporated into the price component leads, when the production is calculated at constant prices, to the underestimation of production growth and overestimation of rise in prices (Rusu C, p. 40).

The findings related to poor productivity growth in the services activity, are however contradicted by the findings related to relative productivity, i.e. productivity calculated not in the absolute sense, but in relative terms compared with other activities (tertiary sector's productivity relative to the one from industry or other activity sector). If the labour force would have the same productivity in all activities, the relative productivity would be everywhere equal to 1; a percentage of the labour force would produce everywhere the same percentage of production or of gross domestic product (GDP). But in fact, the statistics show that in almost all countries, the relative productivity is systematically higher in tertiary activities than in other productive activities. Moreover, the superiority of this relative productivity is certainly stronger for merchandise goods and within them, for company's services.

GDP does not measure the welfare of a nation, but only the value added produced annually in an economy. It expresses the gross added value (GAV) incorporated into the final material goods and services.

## **2. The analysis of labour productivity in the South - West Oltenia region**

Located in the South-West of Romania, on the border with Serbia and Bulgaria, Oltenia is relatively isolated geographically. Due to the varied relief, scenery, historical monuments and cultural traditions, the region has favourable conditions for the development of the tertiary sector. The region is composed of five counties: Dolj, Gorj, Mehedinți, Olt and Valcea, occupying 12,25% of the Romanian total surface. Oltenia is characterized by a widespread rural population (approx. 55%), total population being 2.330.000 inhabitants, that represents 10,75% of Romania's total population. Oltenia region must pay a special interest to promote tourism that could generate jobs, thus contributing to improving the economic performances of the region.

The most important resources are the energetic ones: oil and natural gas with exploiting centres in Brădești, Ghercești, Coșoveni (Dolj) Ticleni, Bustuchin (Gorj) Băbeni (Vâlcea), Iancu Jianu, Potcoava, Cungea, Poboru, Corbu, Icoana (Olt) and lignite exploited by the National Company of Lignite Oltenia in Gorj and in West part of Valcea region.

In the southern area of the region, the cereal crops occupy large areas, especially in Olt, Dolj and southern Mehedinți counties. In hilly areas of Gorj and Valcea, the orchards occupy important areas. In mountain areas from North (in the northern part of Valcea and Gorj, and in Western part of Mehedinți County) the place of crops is taken by mountain forests and meadows. In Drăgășani, Drăgănești, Segarcea, Dăbuleni and Strehaia zones, the vineyards occupy large areas; if the noble grape vine varieties predominate in Drăgășani, in other regions the most common varieties are those hybrid from which is produced the known "zaibăr". In the Olt water meadow area, the farming is practiced, and in Dăbuleni city area watermelons are grown.

The economic tradition inherited from the communist period speaks about an economic divided region between agriculture (Dolj and Olt) and an industry based mainly on the intensive use of the existing natural resources (Gorj, Vâlcea and Mehedinți counties). The changes resulting from the need to modernize the regional economy and the way to achieve these changes by the policy-makers are the main responsible for the current economic state of the region.

After 1945, in the attempt to equalize the level of development of the country's regions, Oltenia went through an intense process of forced industrialization, according to the socialist economic development strategy, after a super-centralized system. Some places have become heavily dependent on a specific economic sector or an industrial activity. Several mono-industrial regions were created, for example in Gorj - mining, Slatina - aluminium industry. A series of activities related to heavy industry (automotive, chemicals, heavy equipment industry, etc.) have also been established in different cities, somewhat against the tradition of the region.

As a consequence of these facts, Oltenia region has experienced a difficult path of economic transition and industrial restructuring, these processes encountering here a greater resistance than in other areas of the country, being somehow delayed due also to the occurred social tensions. In particular, the mining industry and a number of large enterprises were affected.

Looking at the labour productivity at the national and regional level, it is noticed that both at Romania level and at the level of each individual region, during 2000 - 2013, the labour productivity has continuously increased, the only exception being the Bucharest-Ilfov region, which in 2009 has recorded a slight decrease. However, in Bucharest-Ilfov region the labour productivity is approximately double than in each of the other regions. South-West Oltenia region has recorded during the analysis period relatively low values for labour productivity, overpassing only the North - East region on this indicator.

Analyzing the relatively low level of labour productivity at the regional level through the main activity areas of the national economy, we see that one of the factors contributing to this situation is the very low level of labour productivity in agriculture, forestry and fishing. Compared to 2005, the level has increased, remaining at 25% of the regional average, according to 2009. In 2013, the level was almost double, compared to 2009 value.

Analyzing the GAV on activity sectors, in South - West Oltenia region (Table 1) is observed that agriculture in this region had a sinuous evolution. For example, in 2007 the drought affected the agriculture, causing a decrease in crop production, followed by a decline in livestock production, even if in the first quarter of this year, it was recorded a growth. So, the agricultural sector has decreased its contribution to the GDP with 540,8 millions lei compared to 2006, being substituted by the visible increase from the construction sector.

Table 1: GAV in the main activity areas in the South-West Oltenia region

	- millions lei, current prices								
	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Total per region</b>	21354,1	25590,2	30580,6	37948,5	40030,5	42820,5	46257,6	50337,4	51948,1
<b>Agriculture, forestry and fishing</b>	2660	2863,2	2322,4	3211,6	3336,9	3503,9	3735,9	4003,4	4131,5
<b>Industry</b>	7144,8	8335,9	10130,5	12168,0	11869,0	12385,3	13300,8	14539,2	15004,4
<b>Constructions</b>	1686,3	2280,3	3156,8	4590,8	5179,6	5720,6	6339,2	7034,0	7259,0
<b>Trade and services</b>	9863	12110,8	14970,9	17978,1	19645,1	21210,7	22881,6	24760,9	25553,2

Source: data processing from the National Institute of Statistics - TEMPO – Online

The other main areas of the national economy had continuous growths in 2005 - 2013 periods, this fact being caused mainly by the increases in gross added value in those areas.

The gross added value in trade and services has the highest value, being on an upward trend during this period. The positive upward trend of GAV in trade and services sector, from 9.863 billion lei in 2005 to 25.553,2 billion lei in 2013, leads to saying that added value in this sector at the region level is a factor of sustainable development.

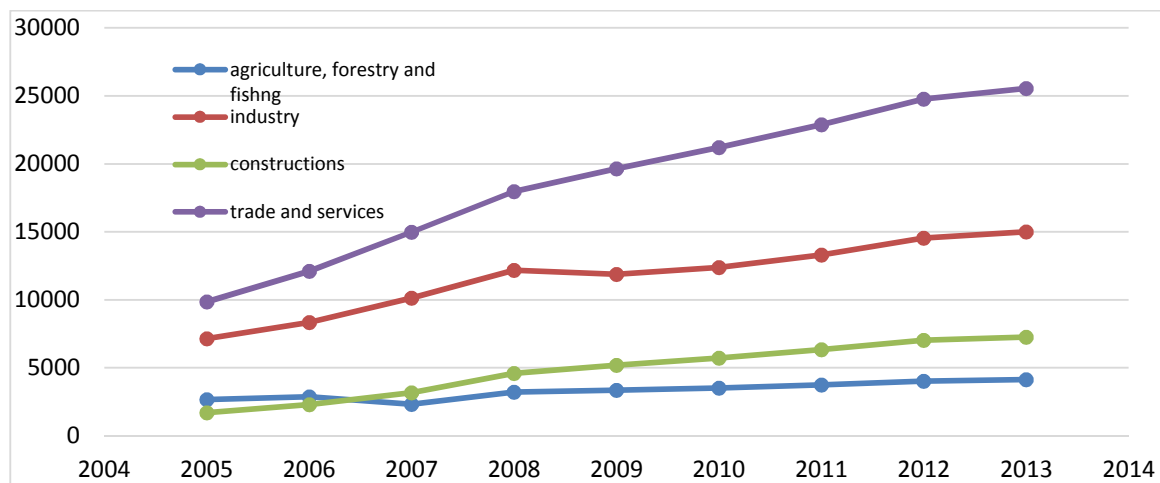


Fig. 1. Evolution of labour productivity in the main activity areas of the South-West Oltenia region

Source: National Institute of Statistics - Database TEMPO, RDA South-West Oltenia *Regional Development Plan 2014-2020*, page 17

On the second place is the industry with a sinuous evolution. From 2005 to 2008 it has an upward trend, in 2009 it decreases by 299 millions compared to 2008, and from 2009 to 2013 it is continuously growing, with 670,2 millions lei in 2012 compared to 2009. The decrease in 2009 was caused by the adoption of some decisions as the following: restructuring the industry, development and specialization of existing sectors by creating an enabling environment for innovative activities, stimulation of new industrial sectors with ecological predilection and re-adjusting the level of qualification-requalification of human resources that must match the market rigors, the user requirements and the economic crisis.

The calculations regarding labour productivity on the counties components of the South-West Oltenia region were obtained based on GAV at county level, data provided by INS in the publication of Regional National Accounts. Thus, in the period under review, the highest labour productivity values were recorded in Gorj, this county surpassing the Dolj County due to lower levels of employment for the civilian population.

In 2008 and 2009, both Gorj and Dolj County, have showed for superior labour productivity higher values than the value at regional level, the other three counties being below this level. Moreover, in Olt and Valcea counties, the labour productivity declined in 2009 compared to 2008, this fact being caused by the decrease in gross added value at county level.

As major trends in 1996 – 2013 period are highlighted the continued decrease of active population, employed population and number of employees as well as activity rates and employment rates of the population, thus leading to increase of economic dependency ratio. The largest increases in labour productivity were registered by SMEs in the electrical and thermal energy, gas and water, from 0,03 in 2005 to 0,62 millions RON / person in 2011, a slight increase in 2012 compared to 2011. Higher values for labour productivity were recorded in trade area, with a value of 0,29 million RON / person in 2012 and mining area, with 0,25 million RON / person.

The lowest values of labour productivity were found in the education domain (0,03 mil / person in 2011), health and social assistance (0,06), hotels and restaurants (0,06) and real estates, renting and activities of services rendered mainly to enterprises (0,07).

### 3. The importance of services for production activity

The services represent a prerequisite and a consequence of industrialization, of growth and of modernization of production. The services are in inter-conditioning relationships with all other activity branches and sectors, they are included in many branches, and their development is influenced and influences the progress and the efficiency of other sectors. If the production of material goods provides the necessary means for equipping and operation of the branches providing services, in their turn, the services represent the condition for normal performing of production process and the determining factor for economic efficiency growth.

The development of the services sector is not necessarily an attribute of the developed countries, services may be considered co-industrial or pre-industrial, rather than post-industrial, if we consider that the operation of processing industry is dependent on the services and that for the development of an efficient and competitive industry is essential to have a strong infrastructure for services.

The economic development and deepening of social division of labour and of requirements of modern economies are causing a series of mutations related to the position of enterprises, as the main link of the economic process. Thus, the enterprises are operating in a more and more complex framework, a more and more intense competitive environment, which requires the development of adaptive capacity and the inclusion in the whole ensemble of productive process of a series of services: marketing research, informational systems, cooperation, and management. Regardless of their type or how they are organized, the services have a major influence on the production, acquiring and amplifying the evolutions recorded in material production. It can be appreciated that the development of services and material production are reciprocity stimulated and interdependent. Regardless of their sector location, the productions of material goods and services are in relations of complementarities, and not of replacement, the growth of services for industrial production being directly related to the structure and development of production of material goods, as well as to its efficiency. The processing industries of developed countries are dominated by activities of services. This does not mean restricting the industry until to become a negligible amount, but the fact that the two economic sectors acquire similar features and are becoming increasingly integrated, the services being now closely related to industrial production system. The old antagonism between industry and services should be abandoned and replaced with a modern approach, based on the need for jointing and combining the industrial activities with the services activities (Ghibuțiu A., 2000). Obviously, these combinations do not have a general, universal character, and they may vary depending on the national dimension, on the endowment with production factors, on the existing values and norms of behaviour, on the tastes and preferences of demand, etc., each country having a unique process of development.

The services for production are, by definition, intermediate factors, inputs in the production-distribution process of material goods and services, covering all phases of the process, from attracting resources and designing products and productive processes, through the organization and coordination of material production, up to distribution and sale of the final products.

The manufacturers of material goods carried-on more and more the provision of services also, as an additional component to the supplied material goods. Achieving integrated packages of material goods and services enable the producers to obtain competitive advantages, differentiating them from their competitors. Provision of goods and integrated services has as driving force the consumer willingness to receive services along with the purchase of a physical good, so their need to be satisfied in a most efficient way. Meanwhile, the manufactured goods are becoming increasingly similar in performance and quality, many of the technologies reaching their maturity, in such a way that providing services that lead the customer satisfaction to a higher qualitative level becomes a viable option to differentiate the supply and to gain a competitive advantage. This mix of goods and services allow also a reduction in transparency, raising barriers and establishing the costs of changing suppliers that lead, eventually, to an increase in the consumer loyalty.

The production is becoming increasingly dependent on the services, on one hand due to the ties between goods and services as a result of complementarity in demand, on the other hand by integrating the service providers companies in networks with other economic activities. The technological progress drives the restructuration of production of goods and services, the boundaries between the industry and services becoming blurred, and the interdependencies manifesting more strongly. The services are able to play a critical role in the production activity, providing transactional and geographical ties, integrating and coordinating the production process. A service input occurs at every stage of the production process: upstream - feasibility studies, marketing research, product design; in the production process - logistics, maintenance, repair, quality control; in parallel with the production process - telecommunications, accounting, legal advice, insurance, etc.; downstream production process - advertising, distribution, transport, many of these additional services bringing high profits for producers.

The relationships of interdependence between the services and industry invalidate the approaches based on succession stage, on the concept of growth and decay of competing economic sectors, because these development models are ignoring the qualitative facets of the development process, that result more from intra-sector mutations than from the inter-sector ones. The savings based on services are assuming the dominance of horizontal relations and flows, instead of the vertical ones, and are favourable to operation of flexible and fluctuant matrix instead of formal structures.

In the frame of productive process the services can be provided by the manufacturing company (internalization) or by specialized services companies, independent from the manufacturing company (outsourcing). A large volume of transactions is generated within and between the services companies, the services of many production services providers heading towards to other service providers.

Increasing the role of services in the frame of productive activity is a direct consequence of the technological development, which resulted in the need for industry companies, but also for agriculture and other sectors companies, to turn to specialized service providers. There have been developed research-development services, involving today millions of people and substantial budgets at company's level; the distribution, logistics, financial, recycling services, etc took a special dimension. The services for companies have a number of features that differentiate them from the public services. Among the most important of these features, the following can be mentioned:

- It addresses a large number of people benefiting from that service; it is intended to organization as a whole and thus affects all its employees. Quality services can facilitate their work, while the failure of the provider may adversely affect the work of all employees.
- High technological level of service. Given the complexity of organizational needs, the providers are forced to use a high degree of automatization of the processes, for performing a prompt quality service.
- High professionalism of staff involved in the service performing. The staff used by the service providers is highly skilled, critical aspect to obtain a competitive advantage. The companies that outsource the services generally are interested by those skills required to meet specific needs. In these circumstances, the companies prefer to turn to service providers as the formation of internal specialists and of a suitable material base are more expensive than the alternative to appeal to the market.
- The decision to purchase is more difficult. The difficulty to assess the services based on tangible features becomes even more acute in the case of services for companies, because of their complexity and the need to optimize the costs with the utility of services. The assessment of services is generally based on certifications of quality management system and on evaluation of past performances (system of recommendations from clients). This is making difficult the decision making process, being necessary to establish clear criteria on which the tender will be selected. The established criteria are usually qualitative ones, due to lack of quantitative attributes which performance can be measured easily.
- The relations between the service provider and the consumer are closer. The relationship management is very important, in case of services for business market, the buyer often participating in design and performing the service. Establishing a mutual trust from the early stages of collaboration contributes to the success of the transaction and to creation of a long-term cooperation frame (especially in case of repeated purchases). The relationship management requires a strong marketing orientation at provider level, supported by a professional staff and a material base used to deliver the service.
- Involvement of senior management. Top management is involved in the decision to purchase services based on specific procedures for analysis and approval. However, the management must understand the importance of services for success of business and to be fully involved in supporting the process of providing those services. The involvement of senior management is essential especially in case of the project type services or of adaptation of standardized services (research projects, implementation of informatics systems, etc.). The management should support the implementation of these projects, to remove fears and resistance to change and to strengthen the employee team towards achieving the ultimate goals of the projects.
- Strong spatial concentration. As services exclusively addressed to companies, the service providers are concentrated around industrial centres, so the producer's access to services should be easy. This creates the so-called localization economies, with beneficial effects in terms of access to information, market development, and development of labour force, transport, urbanization etc. (Constantin C., 2007)

When changing from production of goods to the goods and services as an integrated package, the interaction between the supplier and the consumer will increase, so it will be produced a significant change, centred on the increased attention paid to the consumer. The integrated systems involve a close link between the upstream services of the production process itself, the inside and downstream production process services, thus contributing significantly to increased productivity, added value and international competitiveness of all sectors of the national economy. Many industrial enterprises are exposed, in present, more to a competition through quality and services, than through the prices, these components of the supply being those containing the decisive competitive advantage.



#### 4. Conclusions

The negative developments amplify the already existing imbalances between the active and the inactive population, exerting considerable pressures on the social insurance system. It is noticed also, the maintaining or amplification of geographical disparities, at both regional and national levels.

According to demographic forecasts, South West Oltenia region will face in the coming years an exacerbated process of declining and aging of the population, which could cause major imbalances in the labour force market. To prevent such an evolution, is necessary to implement policies that enhance the regional and professional mobility of the labour force, in the sense of increase of adequacy of professional qualifications to the requirements that are changing rapidly in a labour market, by offering a wider initial training and by applying continuous professional training programs; reducing the recorded imbalances, restructuring the industry, stimulating new ecological branches; rehabilitation of physical infrastructure by identifying and taking advantage of the existing potentials, not only at the region level but also at the level of each county; promoting social programs.

These regional and national policies will have to be made in accordance with the objectives of the EU 2020 European strategy, strategy that has as a key priority the inclusive economic growth and as a target objective the achievement by 2020 of an employment rate of at least 75% for the population with age between 20 and 64 years.

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